

# COMPREHENSIVE ANALYSIS:

## Projecting and Preparing for Potential Impact of Expanded Gaming on Commonwealth of Massachusetts

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Prepared for the Commonwealth of Massachusetts,  
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## Executive Summary

The Commonwealth of Massachusetts engaged Spectrum Gaming Group, an independent research and professional services firm, to analyze a legislative proposal to authorize three commercial destination casino resorts in the state, and to project its potential impacts.<sup>1</sup>

Four core themes resound throughout our analysis that would help ensure that gaming advances public policy in Massachusetts:

1. Public policy should be designed to maximize capital investment, a critical element that separates successful gaming markets from less-successful ones.
2. A robust, comprehensive bidding process should be established to attract the highest quality applicants and to ensure that such applicants develop policies that inure to the best interests of the Commonwealth.
3. Casino licensure, as envisioned in this legislation, is tantamount to a regional monopoly. We suggest that it should require a concomitant responsibility on the part of each licensee to operate in the public interest.
4. The interests of all stakeholders – from operators and investors, to patrons, small business owners and taxpayers – should be parallel. This means that policies and practices must be designed to ensure that all interested parties benefit, and that no interests are sacrificed.

A vigorous licensing process designed to evaluate bids based on how applicants intend to advance the public interest on a variety of fronts is required to ensure the development of a gaming industry that operates in the best interests of Massachusetts.

Many impacts can be expected that can be characterized as related to general economic trends, or that would occur in any industry that targets consumer spending – including the prospect of enhanced competition among private businesses. With that in mind, we caution that there can be no guarantees from the Commonwealth or from casinos that all impacts will be positive. The public and private sectors must maintain realistic expectations, and guide public policy where it can be guided.

Based on our research, analysis and experience, Spectrum reached the following conclusions:

### **Economic Impact**

- Three destination casinos in Massachusetts could generate between \$1.23 billion and \$1.78 billion in annual gross gaming revenue in their first year of stabilized

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<sup>1</sup> Our assumptions for each potential property include the following: 160,000 square-foot casino; 3,000 slot machines; 180 live table games (120 traditional, 60 poker); 2,000-room hotel; 100,000 square feet of convention/meeting/event space; \$1 billion in actual construction costs.

operations. The likely projection is \$1.5 billion in annual gaming revenue. The following table provides a range of revenue projections for one casino in each of the three regions:

Total est. gross gaming revenue (in millions)				
	Region 1	Region 2	Region 3	Total
Low case	\$452.3	\$438.1	\$ 336.4	\$ 1,226.8
Moderate case	\$542.1	\$526.8	\$ 432.7	\$ 1,501.6
High case	\$643.4	\$623.4	\$ 509.7	\$ 1,776.5

- The casinos would each create an average of 4,377 direct jobs.
- Every direct job in the casino industry would yield approximately 0.5 jobs elsewhere in the local economy. The statewide employment impact of this industry would be a total of 20,000 jobs throughout Massachusetts.
- Turnover at the Massachusetts casinos would be about 25 percent, which translates into approximately 1,100 job openings annually at each casino. These will be disproportionately greater in certain job categories, such as unskilled, entry-level positions, where the turnover rate could reach as high as 40 percent.
- The Massachusetts casinos in our moderate-case, or likely, scenario would add about \$1 billion to the gross regional product of the Boston area and \$2 billion to the gross regional product of Massachusetts.
- This moderate scenario shows that \$596.7 million in total government revenue – including indirect revenue -- would be generated, including funds that would be available for property tax relief. This amounts to 39.7 percent of projected gaming revenue.
- Each Massachusetts casino would create an estimated 3,000 direct construction jobs.
- Total annual salaries and wages would be \$121 million for a Boston casino and \$119.6 million for each of the two casinos in the eastern and western regions of Massachusetts. With benefits, total compensation would be \$157.3 million for Boston and \$155.5 million for each of the other two properties. This represents more than \$468 million in annual direct compensation in Massachusetts with three casino properties. With benefits, the average compensation level for casino workers in Massachusetts would be \$35,641. Without benefits, the average is \$27,417.
- Lottery sales in counties near the three destination casinos in Massachusetts would decline, at least in the short term. Long-term, our view is that the Lottery will not be significantly affected by the introduction of casinos in Massachusetts, particularly with the development of cross-marketing plans and other strategies designed to protect the Lottery.
- Conventions and meetings at a destination casino would generate at least \$7.2 million in annual spending at other area businesses, and also would create annual demand for more than 26,000 room nights at other lodging facilities.

- The potential for substitution away from existing entertainment, bars, restaurants, hotels and other businesses can be addressed through effective public policy. The impact of casinos on other businesses – whether a substitution or complementary effect – is likely to be felt within a relatively short distance of the casinos. Without knowing where the three Massachusetts casinos would be located, we cannot project the specific local impacts on businesses. Any adverse effects casinos may have on other industries could be significantly mitigated if the locations for the casinos are chosen wisely, with an eye for strategic placement, and if applicants for licensure affirmatively address this issue in their competitive bids.
- The agencies regulating Massachusetts casinos would have a projected combined annual budget of about \$16.1 million, with most of that funding coming from the gaming operators.
- Legalizing commercial casinos could open the door to Indian tribes to also offer Class III (Las Vegas-style) gambling. However, such casinos would require tribal-state compacts, over which the Commonwealth would have significant negotiation power. Tribes could offer Class II (bingo-based) gaming without a tribal-state compact. Although a Class II tribal casino would represent competition to commercial casinos in the state, a Class III facility would pose much more of a threat.
- Unless and until the open question of a potential tribal casino in Massachusetts is resolved, that uncertainty will be perceived by capital markets and commercial operators as a heightened risk. Added risk would be reflected in a higher cost of capital – i.e., sources of capital will demand greater returns to compensate for the increased risk. This would result in less capital being invested, which would lead to fewer jobs, less gaming revenue and less overall benefit to the Commonwealth.

### **Social Impacts**

- The social impacts of casino gambling are significantly more difficult to objectively analyze and estimate. We concur with the conclusion of prominent problem-gambling epidemiologist Dr. Rachel Volberg: “The negative impacts of gambling [which chiefly concern the social impacts] typically take much longer to emerge than the positive impacts and they’re also often much harder to measure in terms of quantitative and economic terms.”
- Massachusetts likely would have the largest budget among all casino states that could fund problem gambling programs. Existing programs in Massachusetts presently treat problem gamblers who visit out-of-state casinos. These out-of-state casinos presently contribute no funding for such Massachusetts programs.
- While treatment for problem gambling would be funded from state revenue, the casino licensees should have primary responsibility to develop comprehensive “responsible gaming” policies to address this issue. Such plans should be viewed as a critical element in evaluating competitive bids.
- Destination casinos – because they will drive high levels of visitation – will have a significant impact on the demand for law enforcement and related services. For

example, a significant increase in driving under the influence (DUI) arrests should be expected. Local law enforcement agencies – particularly in rural areas – could face serious demands for their services, which must be anticipated.

- Casinos located near high-volume highways that have adequate access can cause less disruption to the host and surrounding communities; casinos nestled among towns, farther from high-volume highways, can potentially fuel considerable disruption in terms of traffic, quality of life, and maintenance costs.

### **Casino Visitation**

- Destination casinos collectively would generate an average of between 18,000 and 27,000 visits per day.
- Three Massachusetts destination casinos would draw between 43 percent and 65 percent of all Massachusetts gaming trips and spending, or between \$572 million and \$864 million annually.
- Massachusetts residents have been spending an estimated \$1.1 billion annually on gaming alone in Connecticut and Rhode Island. Massachusetts casinos could recapture about \$500 million to \$700 million of that annual total.
- Complementing such recaptured spending, Massachusetts would see the importation of new gaming revenues from neighboring states ranging from about \$650 million to \$900 million. Overall spending on casino gambling by Massachusetts residents would increase by \$125 million to \$150 million over present levels.
- Casinos can complement existing attractions, add perceived value to tourists and business travelers who are considering Massachusetts as a destination, and help attract incremental capital investment for the tourism industry.

### **Recommendations**

The public sector in Massachusetts has broad discretion and powerful leverage at the outset to ensure that the successful bidder takes whatever steps are necessary to advance the public interest on a wide variety of fronts. Such leverage would be at its zenith during the bidding phase, in which applicants would recognize that they must compete against each other in their zeal and in their creativity in developing strategies to advance the public interest. Once licenses are issued, and casinos are operational, we caution that such leverage would largely disappear.

Using that leverage to require that all bidders submit comprehensive, credible plans that are in congruence with public policies can be justified by the proposed legislation, which essentially creates up to three regional monopolies. No other private businesses that target consumer discretionary spending, from hotels to restaurants, could reasonably expect that Massachusetts would protect them from potential in-state competition. Our core recommendation is to develop a robust bidding process designed to ensure that all applicants develop financial, marketing and other plans that fully operate



in the public interest. To that end, all applicants must develop comprehensive plans that address a variety of concerns and policies, including:

- Protecting the Lottery.
  - Targeting conventions and meetings to increase overnight visitation and increase utilization of existing convention facilities.
  - Developing cross-marketing plans with other local businesses.
  - Training local workers.
  - Promoting tourism.
  - Addressing problem gambling.
- The selection process must be developed and guided by appointed officials who possess the political ability and independence to establish rigorous standards in a variety of areas. Such officials must be vested with the ability – and willingness – to weigh applications and, if necessary, deny any and all applications, should such applications fall short of these standards.
- The Commonwealth must maintain the highest possible degree of independence from fiscal pressure to help ensure the highest-quality facilities that operate in the public interest. Fiscal pressures could enhance the appeal of proposals to allow for the relatively quick installation of slots at racetracks or other facilities, operating under a higher tax rate, but such facilities would likely have different business models than destination casinos, and would thus be less likely to advance the same public policies. Visitors to well-capitalized destinations – as opposed to, say, smaller, under-capitalized properties that target convenience-driven, local adults – will likely stay longer and spend more. The greater the level of capitalization, the less vulnerable a gaming industry would be to competition from the expansion or introduction of gaming in other states.
- The Commonwealth should use a staggered bidding process, focusing on Region 1 as the first license to be awarded. This would allow stronger bidders that are not successful in one region to pursue plans in another. It would also allow the most efficient operators – who would be more likely to build properties that would further public policy – more than one opportunity to participate in Massachusetts gaming. The drawback of a staggered process is that it could significantly add to the length of time in which the Commonwealth would not be realizing anticipated revenue. This could be ameliorated, however, by allowing operators to build temporary facilities.
- Regulators should be wary of any bids that attempt to win licensure by promoting higher rates beyond the 27 percent minimum. Higher rates – while they might be tempting as a means of addressing near-term budget shortfalls – would likely result in less investment, fewer jobs and potentially less overall gaming revenue in the long term. Even at a 27 percent tax rate, Massachusetts casinos would be at a material disadvantage against their most direct competitors in Connecticut, as well as against some more distant competitors in New Jersey and elsewhere.

The Commonwealth must protect the Lottery by using multiple tools:

- All bids for any future casino destinations in Massachusetts should include plans designed to minimize any negative impact on the lottery.
  - The casinos should assume financial responsibility for protecting the lottery against any adverse impact from the new casino competition.
  - Require casinos to develop plans to increase ticket sales to out-of-state residents.
  - Require casino operators to develop and follow through on cross-marketing strategies with the lottery.
  - At least one of the two gubernatorial appointees to the Massachusetts State Lottery Commission should be a representative of the casino industry to help coordinate all efforts to grow lottery revenues.
  - Reconsider the proposed 3 percent guaranteed long-term growth rate, as it is perhaps too ambitious for a lottery that has proven to be so successful. (The lottery's success will make it increasingly difficult to achieve such growth over time, requiring higher per capita spending from adults who already are spending more on lottery tickets than their counterparts in other states.) Rather, we suggest that the Legislature consider a lower target growth rate, yet require applicants for casino licensure to develop plans designed to achieve that 3 percent growth rate.
- Casino applicants should be weighed, in part, on how they intend to develop cross-marketing arrangements with appropriate nearby businesses. Such arrangements must recognize, and serve the interests of both the casino and the outside business.
  - Any Indian casino should, ideally, be one of the three state-issued commercial licenses. An Indian casino that operates outside of the Massachusetts regulatory system could potentially generate no gaming-tax revenue to the Commonwealth and would likely cause a significant decline in the gross gaming revenues of one or more of the commercial casinos. Any compact negotiated by the state should seek to ensure a level playing field – notably with respect to the tax on gross gaming revenue – among all gaming operators.
  - Massachusetts should adopt an efficient but relatively strict approach to the regulation of its gaming industry at the start to ensure the public's trust. This regulatory scheme should:
    - Create regulations for the control of the assets that thoroughly address rules for table games and controls for slot machines.
    - Include a visible presence on the casino floor and be accessible to the public and casino employees.
    - Create a licensing structure that addresses all those that participate in the gaming industry, including operators, employees and vendors.
    - Create an investigative agency that is independent of the regulatory agency.

- Destination casinos must be fully integrated into the tourism industry. Any casinos developed in Massachusetts must coordinate their marketing efforts closely with existing tourism programs, both at the local and state levels. Such programs should be designed to increase the frequency and length of visitation and expand the visitor base.
- The Commonwealth must be sufficiently flexible when considering mitigation funding for communities. The number of communities potentially impacted by casinos cannot be ascertained in advance of knowing the location, project scope, ease of access or other factors for any of the three destination resorts. Therefore, we suggest that the bidding process should require all applicants to take a broad view when defining their local community. This includes the following provisions:
  - Applicants for licensure must demonstrate they would minimize the negative impacts, to ensure that mitigation funding stays within the proscribed 2.5 percent limit. Such steps would require the applicants to bear the burden of proof that they have selected an optimal location that offers sufficient access to both patrons and employees, and that the property is pursuing marketing and other strategies designed to minimize such impacts.
  - Law-enforcement responsibilities on the casino floor should be handled at the state level, with minimal demands on local law enforcement. This should include the cost of handling any prosecution of crimes on the casino floor, as is done in other states.
  - The public sector must recognize that not all types of communities will be impacted in the same way, so a one-size-fits-all funding formula might not prove effective once casinos are operational.
  - Given that resource allocation and political representation in Massachusetts are based on population measures, visitation must be taken into account when allocating resources for casino mitigation purposes, particularly when it comes to funding law enforcement.
- Each casino applicant should compensate the Commonwealth or the impacted area for a preliminary impact study of that area. The successful applicant would then be required to compensate the Commonwealth or the impacted area for an updated study every five years, or other appropriate interval.
- Casinos should be sited in areas that provide easy access for its workforce. Such access should be an important criterion in weighing any application.

The Commonwealth should expand its workforce development efforts to address the vital needs of the unemployed and underemployed as well as people on welfare. The public interest would be best served through private/public partnerships designed to provide basic skills and workplace training to those who need it the most. Additionally, the gaming industry's efforts to help lower-skilled, entry-level workers become part of the Massachusetts labor force will help instill public confidence in casino gaming. The Massachusetts Casino Workforce Development Partnership (CWDP) program could utilize the existing structure of the Massachusetts Workforce Development System.